TESTIMONY
BEFORE THE COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT BY

THE HONORABLE MICHAEL O. LEAVITT
SECRETARY
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

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Good morning Chairman Barton, Congressman Dingell, and members of the committee. I am honored to be here today to present to you the President's FY 2006 budget for the Department of Health and Human Services (HHS). The President and I share an aggressive agenda for the upcoming fiscal year, in which HHS advances a healthier, stronger America while upholding fiscal responsibility and good stewardship of the People's money.

In his February 2nd State of the Union Address, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the FY 2006 budget. The budget savings and reforms in the budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009 and I urge the Congress to support these reforms. The FY 2006 budget includes more than 150 reductions, reforms, and terminations in non-defense discretionary programs, of which 19 affect HHS programs. The Department wants to work with the Congress to achieve these savings.

The President's health agenda leads us towards a nation of healthier Americans, where health insurance is within the reach of every American, where American workers have a comparative advantage in the global economy because they are healthy and productive, and where health technology allows for a better health care system that produces fewer mistakes and better outcomes at lower costs. The FY 2006 HHS budget advances this agenda.

The FY 2006 HHS budget funds the transition towards a health care system where informed consumers will own their personal health records, their health savings accounts, and their health insurance. It enables seniors and people with disabilities to choose where they receive long-term care and from whom they receive it. Equally important, it builds on the Department's Strategic Plan and enables HHS to foster strong, sustained advances in the sciences underlying medicine, in public health, and in social services.

To support our goals, President Bush proposes outlays of $642 billion for HHS, a 10 percent increase over FY 2005 spending, and more than a 50 percent increase over FY 2001 spending. The discretionary portion of the President's HHS budget totals $67 billion in budget authority and $71 billion in program level funding. In total, the HHS budget accounts for almost two-thirds of the proposed federal budget increase in FY 2006.

The Department will direct its resources and efforts in FY 2006 towards:

- Providing access to quality health care, including continued implementation of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003;
- Enhancing public health and protecting America;
- Supporting a compassionate society; and
- Improving HHS management, including continuing to implement the President's Management Agenda

Americans enjoy the finest health care in the world. This year's budget provides opportunities to make quality health care more affordable and accessible to millions more Americans.

MEDICARE

HHS will be working in FY 2006 to successfully implement the Medicare Modernization Act (MMA), including the Medicare Prescription Drug Benefit and the new Medicare Advantage regional health plans. I know there has been a lot of discussion over the past week about the cost of the new Medicare proposal, and I want to address that issue today. Recent press reports have inaccurately claimed that our cost estimates have dramatically increased. This is simply untrue.

The passage of time is the main reason that the FY 2006 budget shows a higher net federal cost ($723.8 billion) for 2006-2015 than the cost estimate for 2004-2013. In the original cost estimates, the first two years in the ten-year budget window were for years before the new drug benefit was implemented (2004 and 2005). The ten-year budget window reflected in the 2006 budget includes ten full years of actual drug benefit spending. In effect, the passage of time has dropped two low-cost dollar year estimates (only transitional assistance spending) from the budget window and added two high-cost years, due to anticipated increases in average drug spending and the growth of the Medicare population. People should not be surprised that the numbers look different as a result of the advance of time.

Some individuals have asserted that the estimate for MMA implementation is now over a trillion dollars. This assertion is completely unsupported by facts. The trillion dollar figure is a gross estimate that neglects to subtract out hundreds of billions of dollars of federal revenue, including beneficiary premiums, state payments, and other offsetting federal savings. Focusing exclusively on gross spending levels without considering the offsetting savings creates false impressions and does a disservice to the budget process and to Medicare beneficiaries.

Moving beyond the subject of funding, I hope we can all begin to focus on the task at hand – ensuring successful implementation of a strengthened and improved Medicare program with the new prescription drug benefit. Between now and January 1, 2006, we have a lot of work to do, and I give you my commitment that we will not fail. I know not everyone in this committee supported the passage of the Medicare bill, but it is now law, and in 10 ½ months, almost 43 million Americans will be eligible to receive much needed assistance with the high cost of prescription drugs. Let us put aside our differences and work together towards the goal of ensuring that seniors and people with disabilities are successfully sign up for their new benefits. We all owe that to them.

UNINSURED

In FY 2006, the President also proposes steps to promote affordable health care for the approximately 45 million Americans who are currently uninsured. The President proposes to spend more than $125.7 billion over ten years to expand insurance coverage to millions of

Americans through tax credits, purchasing pools, and Health Savings Accounts. To improve access to care for many uninsured Americans, the President's budget requests $2 billion, a $304 million increase from FY 2005, to fund community health centers. This request does two things. It completes the President's commitment to create 1,200 new or expanded sites to serve an additional 6.1 million people by 2006. By the end of FY 2006, the Health Centers program will deliver high quality, affordable health care to over 16 million patients at more than 4,000 sites across the country. In 2006, health centers will serve an estimated 16 percent of the Nation's population who are at or below 200 percent of the Federal poverty level. Forty percent of health center patients have no health insurance and 64 percent are racial or ethnic minorities. In addition, the President has established a new goal of helping every poor county in America that lacks a community health center and can support one. The budget begins that effort by supporting 40 new health centers in high poverty counties.

Moreover, the President proposes a budget that would expand access to American Indian and Alaska Native health care facilities, staff six newly built facilities to serve the growing eligible population of federally recognized members of Native American Tribes, and address the rising costs of delivering care. In FY 2006, the Indian Health Service will provide quality health care through 49 hospitals, more than 240 outpatient centers, and more than 300 health stations and Alaska village clinics. In total, the President proposes increasing health support of federally recognized tribes by $72 million in FY 2006, for a total of $3.8 billion.

The President and the Department are also committed to resolving the growing challenges facing Medicaid. Medicaid provides health insurance for more than 46 million Americans, but as you are all aware, States still complain about overly burdensome rules and regulations, and the State-Federal financing system remains prone to abuse.

This past year, for the first time ever, states spent more on Medicaid than they spent on education. Over the next ten years, American taxpayers will spend nearly $5 trillion dollars on Medicaid in combined state and Federal spending. The Department proposes to make sure tax dollars are used more efficiently by building on the success of the State Children's Health Insurance Program (SCHIP) and waiver programs that allow states the flexibility to construct targeted benefit packages, coordinate with private insurance, and extend coverage to uninsured individuals and families not typically covered by Medicaid.

The President proposes to give states more flexibility in the Medicaid program in order to enable states to increase coverage using the same Federal dollars. The tools we have at our disposal today were not available when Medicaid was created. States largely agree that current Medicaid rules and regulations are barriers to effective and efficient management. Over the past ten years, Medicaid spending doubled. At its current rate of growth (7.4%), the Federal share of Medicaid spending would double again in another ten years.

The growth in Medicaid spending is unsustainable. I intend to enter into a serious discussion

with Governors and Congress to decide the best way to provide states the flexibility they need to better meet the health care needs of their citizens.

The President plans to expand coverage for the key populations served in Medicaid and SCHIP by spending $15.5 billion on targeted activities over ten years. The Budget includes several proposals to provide coverage, including the 'Cover the Kids' campaign to enroll more eligible uninsured children in Medicaid and SCHIP. In addition, the extension of the Qualified Individual (QI) and transitional medical assistance programs will ensure coverage is available to continue full payment (subject to a spending limit) of Medicare Part B premiums for qualified individuals, and provide coverage for families that lose eligibility for Medicaid due to earnings from employment. Also, community-based care options for people with disabilities will be expanded through the President's New Freedom Initiative, including authorizing $1.75 billion over five years for the Money Follows the Person Rebalancing demonstration.

Overall, these efforts to expand health insurance coverage, as well as those in other Departments, work together to extend health care coverage and health care services to millions of people. Thanks to the comprehensive nature of this agenda, workers are already investing money tax-free for medical expenses through Health Savings Accounts, Americans have increasing flexibility to accumulate savings and to change jobs when they wish, and more Americans are accessing high-quality health care. We estimate that 8 to 10 million additional people will gain health insurance over the next ten years. Together, these efforts to expand insurance coverage

and improve the Medicaid and SCHIP programs will cost approximately $140 billion over the same period.

At the same time, we are taking steps to ensure states can use their Medicaid funds to the fullest potential to reach more individuals in need of health care. The budget includes proposals that will assure an appropriate partnership between the Federal and state governments. We would like to work cooperatively with the states to respond to the challenges in Medicaid. We must eliminate the vulnerabilities that threaten Medicaid's viability. In our budget, we have proposed a series of legislative changes that will ensure Medicaid dollars are used appropriately to fulfill the program's purpose to provide health care coverage for low income families and elderly and disabled individuals with low incomes. Under this proposal, inappropriate federal spending on Medicaid intergovernmental transfers and spending resulting from other current loopholes in Medicaid law will decrease by $60 billion over 10 years.

As a former Governor, I understand the pressure on states in developing their budgets, particularly given the lack of flexibility in the current Medicaid law. However, some state officials have resorted to a variety of inappropriate loopholes and accounting gimmicks that shift their Medicaid costs to the taxpayers of other states. Obviously, states that are not engaging in these activities will not be affected by the proposals in the same manner as states that are. Collectively, the overall impact of the $60 billion ten-year decrease in federal Medicaid spending on states will in reality be about $40 billion, because by changing the calculation of prescription

drug payments to be based on the average sales price and by tightening asset transfer rules, approximately $20 billion in state spending will be saved. And it should be noted that two-thirds of the savings will occur beyond the initial five-year budget window.

PREPAREDNESS

The HHS FY 2006 budget will also build on the Department's achievements in strengthening our ability to detect, respond, treat, and prevent potential disease outbreaks due to bioterrorist acts. It will enable the National Institutes of Health (NIH) to increase research efforts in developing bioterrorism countermeasures and to fund biomedical research at current levels, it will allow the Centers for Disease Control and Prevention (CDC) to expand the Strategic National Stockpile, and it will support the Food and Drug Administration's efforts to defend the nation's food supply. This proposal requests $4.2 billion to continue this work, an increase of almost 1500% over 2001. This request raises to $19 billion the cumulative amount invested since September 11, 2001 on public health preparedness, and that investment is showing tangible results.

Let me mention just a few of the highlights and also note that HHS works in close cooperation with DHS on many of these activities, including the medical surge initiative and food node threats and vulnerability assessments:

§ HHS has a responsibility to lead public health and medical services during major disasters and emergencies. To support this, we are requesting $70 million for the Federal Mass

Casualty Initiative to improve our medical surge capacity. We are also investing $1.3 billion to support work at CDC and the Health Resources and Services Administration (HRSA) to improve state and local public health and hospital preparedness.

§ In the event of a major health emergency, one posed by either nature or through the intentional use of a weapon of mass destruction, the Strategic National Stockpile would provide Americans with almost immediate access to an adequate supply of needed medicines. In order to ensure the effectiveness of the Stockpile, we're requesting $600 million to buy additional medicines, replace old ones, provide specialized storage, and get any needed medicines and supplies to any location in the United States within 12 hours. $50 million of this will go to procure portable mass casualty treatment units.

§ We're requesting $1.9 billion for the Food and Drug Administration (FDA)—an increase of $81 million over 2005. $30 million of this request would be directed to improving the agency's national network of food contamination analysis laboratories and to supporting vital research on technologies that could prevent threats to our food supply. HHS also proposes to dedicate $6.5 million more than in FY 2005 to evaluating and communicating drug safety risks to the public and applying scientific expertise to explore the risks of medical products already on the market.

We now have a heightened awareness that the nation's critical food safety infrastructure must be

better protected. FDA quickly learned that pursuing more field exams, alone, is not the most effective strategy for providing this protection. The new Prior Notice requirement on the shipment of foods allows FDA to conduct intensive security reviews on products that pose the greatest potential bioterrorism risk to consumers in the United States. We intend to compliment these inspection efforts with further improvements to the national network of food contamination analysis laboratories, and to provide support for vital research on technologies that could prevent threats to food supply. Investments like these will allow FDA to work smarter in the future.

The Food and Drug Administration is an integral component in our efforts to promote and protect the health of the United States public. Its mission is broad, and the agency's decisions affect virtually every American on a daily basis. In addition to food defense, the proposed $81 million increase will be focused on achieving specific improvements in drug safety and medical devices.

The budget includes a total of $747 million for human drugs and biologics, an increase of $26 million. With these funds, we propose to strengthen FDA's Office of Drug Safety with an increase of $6.5 million, for a total of $33 million. This increase will better equip the Office to carry out Center-wide responsibilities for drug safety analysis and decision-making. Critical staff expertise will be augmented in such areas as risk management, communication and epidemiology. Increased access to a wide range of clinical, pharmacy and administrative databases to monitor adverse drug events will be obtained. Also, external experts will also be

used to a greater degree to evaluate safety issues.

Medical device products regulated by FDA must be safe and effective. The budget requests $289 million, an increase of $12 million, to improve timely performance in the review of applications, as well as, maintaining consistent high standards of safety and quality. Additional funds will also be directed towards medical device post-market safety activities.

VACCINES

The FY 2006 budget also includes targeted efforts to ensure a stable supply of annual influenza vaccine, to develop the surge capacity that would be needed in a pandemic, to improve the response to emerging infectious diseases before they reach the United States, and to improve low-income children's access to routine immunizations.

HHS plans to invest $439 million in targeted influenza activities in FY 2006, in addition to insurance reimbursement payments through Medicare. The budget includes a two-part $70 million approach to ensure industry manufactures an adequate supply of annual influenza vaccine. The Vaccines for Children (VFC) program will again set aside $40 million in new resources to ensure an adequate supply of finished pediatric influenza vaccine. The discretionary Section 317 program will use $30 million to get manufacturers to make additional bulk monovalent vaccine that can be turned into finished vaccine if other producers experience problems, or unusually high demand is anticipated.

To improve low-income children's access to routine immunizations, the budget includes legislative proposals in VFC that I believe should be strongly supported by the members of this Committee. This legislation would enable any child who is currently entitled to receive VFC vaccines to receive them at State and local public health clinics. There are hundreds of thousands of children who are entitled to VFC vaccines, but can receive them only at HRSA-funded health centers and other Federally Qualified Health Centers. When these children go to a State or local public health clinic, they are unable to receive vaccines through the VFC program. This legislation will expand access to routine immunizations by eliminating this barrier to coverage and will help States meet the rising costs of new and better vaccines. As modern technology and research has generated new and better vaccines, that cost has risen dramatically. For example, when the pneumococcal conjugate vaccine became available, it increased the cost of vaccines to fully-immunize a child by about 80 percent. FDA has recently approved a new meningococcal vaccine that will further raise the cost to fully-immunize a child – making this legislation even more important.

To improve our Nation's long-term preparedness, NIH will invest approximately $119 million in influenza-related research – nearly six times the FY 2001 level. The budget also increases the Department's investment to develop the year-round domestic surge vaccine production capacity that would be needed in a pandemic, including new cell culture vaccine manufacturing processes, to $120 million. These research and advanced development efforts will be

complemented by expanding CDC's Global Disease Detection initiatives from $22 million to $34 million to improve our ability to prevent and control outbreaks before they reach the U.S.

OTHER BUDGET INITIATIVES

The toll of drug abuse on the individual, family, and community is both significant and cumulative. Abuse may lead to lost productivity and educational opportunity, lost lives, and to costly social and public health problems. HHS will assist states in FY 2006 through the Access to Recovery program to expand access to clinical treatment and recovery support services, and to allow individuals to exercise choice among qualified community provider organizations, including those that are faith-based. This program recognizes that there are many pathways of recovery from addiction. Fourteen states and one tribal organization were awarded Access to Recovery funding in FY 2004, the first year of funding for the initiative. This budget increases support for the Access to Recovery initiative by 50 percent, for a total of $150 million.

Expanding abstinence education programs is also part of a comprehensive and continuing effort of the Administration, because they help adolescents avoid behaviors that could jeopardize their futures. Last year, HHS integrated abstinence education activities with the youth development efforts at the Administration for Children and Families (ACF), by transferring the Community-Based Abstinence Education program and the Abstinence Education Grants to States to ACF. The FY 2006 budget expands activities to educate adolescents and parents about the health risks associated with early sexual activity and provide them with the tools needed to help adolescents

make healthy choices. The programs focus on educating adolescents ages 12 through 18, and create a positive environment within communities to support adolescents' decisions to postpone sexual activity. A total of $206 million, an increase of $39 million, is requested for these activities.

Our request also includes approximately $18 billion for domestic AIDS research, care, prevention and treatment. We are committed to the reauthorization of the Ryan White CARE Act treatment programs and request a total of $2.1 billion for these activities, including $798 million for lifesaving medications through the AIDS Drug Assistance Program.

Finally, we constructed the FY 2006 budget with the knowledge that health information technology will improve the practice of medicine. For example, the rapid implementation of secure and interoperable electronic health records will significantly improve the safety, quality, and cost-effectiveness of health care. To implement this vision, we are requesting an investment of $125 million. $75 million will go to the Office of the National Coordinator for Health Information Technology, to provide strategic direction for development of a national interoperable health care system. $50 million will go to the Agency for Health Care Research and Quality to accelerate the development, adoption, and diffusion of interoperable information technology in a range of health care settings.

PROGRAM PERFORMANCE

The President and the Department considered a number of factors in constructing the FY 2006 budget, including the need for spending discipline and program effectiveness to help cut the deficit in half over four years. Specifically, the budget decreases funding for lower-priority programs and one-time projects, consolidates or eliminates programs with duplicative missions, reduces administrative costs, and makes government more efficient. For example, the budget requests no funding for a number of smaller, duplicative community services programs and the Community Services Block Grant, which was unable to demonstrate results in Program Assessment Rating Tool evaluation. The Administration proposes to focus economic and community development activities through a more targeted and unified program to be administered by the Department of Commerce. It is due to this focused effort to direct resources to programs that produce results that I am certain our targeted increases in spending will enable the Department to continue to provide for the health, safety, and well-being of our People.

Over the past four years, this Department has worked to make America and the world healthier. I am proud to build on the HHS record of achievements. For the upcoming fiscal year, the President and I share an aggressive agenda for HHS that advances a healthier, stronger America while upholding fiscal responsibility and good stewardship of the People's money. I look forward to working with Congress as we move forward in this direction. I am happy to answer any questions you may have.